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Patricia Crowe
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February 5, 2004

HAND DELIVERED

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor Boston, MA 02110

Re: Colonial Gas Company, D.T.E. 03-90
Responses to DTE's First Set of Information Requests

Dear Ms. Cottrell:

Please find enclosed Colonial Gas Company d/b/a KeySpan Energy Delivery's Responses to Information Requests D.T.E. 1-1 through D.T.E. 1-7 in the above-entitled matter. Per John R. Craven's instructions, six copies of these responses are being sent directly to him.

Very truly yours,

^t ⁻ ^s
Patricia Crowe

PC:ca
Enclosure

cc: John R. Craven, Hearing Officer (6 copies)

COLONIAL GAS COMPANY
D.T.E. 03-90

FIRST SET OF INFORMATION REQUESTS OF THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

D.T.E. 1-1

Respondent: Ann Leary

- Q. Please refer to Attachment A of the Company's September 17, 2003 filing. Explain how the return on equity and adjusted return on equity ("ROE") for 2002 were calculated. Provide all worksheets, formulas and relevant documents in support of your answer.
- A. The Company's Return on Equity contained in its September 17, 2003 filing was calculated using the Net Income in 2002 of \$8,633,000 divided by the Average Common Equity of \$267,798,000. The Company has revised its ROE calculation found in Attachment A in accordance with the directives from the Department in its April 3, 2003 letter. As a result, the ROE for 2002 has increased from 3.22% to 8.87%. Please see attached calculation.

Colonial Gas Company

Attachment 1-1

(000 omitted)

2002

Net Income Calculation:

Utility Operating Income DTE page 10, Line 18	33,839
Add: Amortization of Acquisition Premium	
Add: service quality penalties	
Less: Allocated Interest(See Below)	(25,193)

Net Utility Income Available for Common Shareholders

8,646

Calculation of Allocated Interest:

DTE page 10, Lines 39 and 48	25,198
DTE page 8, Line 2	835,426
DTE page 8, Line 8	387
Total	835,813
% of Line 2 to Total	0.9995
DTE page 8, line 4 (Capital Leases)	(216)
Total	835,597
% of Line 2 to Total + Capital Leases	0.9998
Allocated Interest(Line 27 above times Line 38)	25,193

Total Utility Common Equity:

Proprietary Capital - DTE page 9, Line 13	266,174
Less preferred: DTE Page 9, Line 4	
Less: Unamortized Acquisition Premium	(377,292)
Add back: Push down Deb(NOTE A)	214,000
Total Equity	102,882
% Above	0.9998
Ending Utility Common Equity	102,861
Beginning Utility Common Equity	92,110
Total	194,971
Average Common Equity	97,485

NET UTILITY INCOME DIVIDED BY AVERAGE EQUITY

8.87%

NOTE A: The Department ruling dated April 3, 2003 did not consider adding back the unamortized acquisition premium supported by push-down debt. Without this add back, equity would be negative. Therefore, we have deducted only the equity portion from the unamortized acquisition premium.

NOTE B: The Company has interpreted footnote 6 in the Department's letter of April 3, 2003 to mean that the equity will be multiplied times the ratio of utility plant to the total of utility plant and other property. The Company believes that the Department intended gas companies to exclude amounts not supported by proprietary capital, which would result in the exclusion of capital leases from proprietary capital.

COLONIAL GAS COMPANY
D.T.E. 03-90

FIRST SET OF INFORMATION REQUESTS OF THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

D.T.E. 1-2

Respondent: Ann Leary

Request: Please refer to Attachment A of the Company's September 17, 2003 filing. Explain the reasons for the decline in the Company's ROE for the period 1999 through 2002 relative to the period 1996 through 1998.

Answer: The decline in Colonial Gas Company's ROE for the period 1999 through 2002 relative to the period 1996 through 1998 is primarily due to increased equity resulting from the mergers with Eastern Enterprises and KeySpan. Net income was also affected by the interest associated with the push-down debt.

COLONIAL GAS COMPANY
D.T.E. 03-90

FIRST SET OF INFORMATION REQUESTS OF THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

D.T.E. 1-3

Respondent: Ann Leary

Request: Please refer to Attachment A of the Company's September 17, 2003 filing. Assuming that Colonial's petition to recover the \$1,280,689 as exogenous costs is approved by the Department, recalculate the Company's ROE for 2002. Compare the recalculated ROE with the Company's actual ROE for 2002. Submit all worksheets, formulas and relevant documents in support of your answer.

A. If the Company were to recalculate its ROE for 2002 to include the recovery of the \$1,280,689 of exogenous costs, the Company effectively would be double counting the impact of the exogenous costs recovery. The Company's ROE calculation for 2002 already includes exogenous costs approved by the Department from 2001 because there is a lag of one year for recovery of exogenous costs. There is not a significant difference between the 2001 and 2002 exogenous costs amounts. Therefore, any adjustment to the ROE calculation caused by replacing the 2001 exogenous costs of \$1,173,986 with 2002 exogenous costs of \$1,280,689 would be minimal.

COLONIAL GAS COMPANY

D.T.E. 03-90

FIRST SET OF INFORMATION REQUESTS OF THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

D.T.E. 1-4

Respondent: Ann Leary

Q. Please refer to Exhibit 1 at 1 and Attachment B of the Company's September 17, 2003 filing. Define the term "carrying costs". Regarding the Company's Residential DSM program, explain in detail how the carrying costs of \$90,823 for the period May 2002 through April 2003 were calculated. Provide all worksheets, formulas and relevant documents in support of your answer

A. Carrying charges occur as a result of a timing difference or lag between the month in which the Company experienced lost base revenue and the point in time that the Department approves the recovery of this lost base revenue from customers through the Company's LDAF (Local Distribution Adjustment Factor). For example, lost base revenue incurred for the period May 2002 through April 2003 are not included in the Company's LDAF for recovery from customers until November 2003.

The carrying costs for the Company's Residential DSM Program were calculated as follows:

$$(\text{Month's Average Balance} \times 13.58\% \text{ Pretax Cost of Capital}) \left(\frac{\# \text{ Days Month}}{365 \text{ Days in the Year}} \right)$$

The worksheets and formula used to calculate carrying costs are found in Exhibit 3, pages 3 & 4 for Lowell and pages 6 & 7 for the Cape. The formula (Line 35 X Line 36)(Line 38/Line 37) is noted on line 46 of each of these pages. The sum of the carrying charges for May through April at line 40 on each of these pages is then totaled. For ease of reference, the pages are attached and numbered.

COLONIAL GAS COMPANY
D.T.E. 03-90

FIRST SET OF INFORMATION REQUESTS OF THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY
D.T.E. 1-5

Respondent: Ann Leary

Q. Please refer to Exhibit 4 at 1 and Attachment B of the Company's September 17, 2003 filing. Regarding the Company's Small C&I DSM program, explain in detail how the carrying costs of \$14,633 for the period May 2002 through April 2003 were calculated. Provide all worksheets, formulas and relevant documents in support of your answer.

A. The carrying costs for the Company's Small C&I DSM Program are calculated as follows:

(Month's Average Balance X 13.58% Pretax Cost of Capital) (# Days Month/365 Days in the Year).

The worksheets and formula used to calculate carrying costs are found in Exhibit 9, pages 4-9 for Lowell and pages 11-16 for the Cape. The formula (Line 34 X Line 35) (Line 37/Line 36) is noted on line 45 of each of these pages. The sum of the carrying charges for May through April at line 39 on each of these pages is then totaled. For ease of reference, the pages are attached and numbered.

COLONIAL GAS COMPANY
D.T.E. 03-90

FIRST SET OF INFORMATION REQUESTS OF THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

D.T.E. 1-6

Respondent: Ann Leary

Q. Please refer to Exhibit 4 at 1 and Attachment B of the Company's September 17, 2003 filing. Regarding the Company's Medium C&I DSM program, explain in detail how the carrying costs of \$35,860 for the period May 2002 through April 2003 were calculated. Provide all worksheets, formulas and relevant documents in support of your answer.

A. The carrying costs for the Company's Medium C&I DSM Program are calculated as follows:

(Month's Average Balance X 13.58% Pretax Cost of Capital) (# Days Month/365 Days in the Year).

The worksheets and formula used to calculate carrying costs are found in Exhibit 9, pages 20-25 for Lowell and pages 27-32 for Cape. The formula (Line 34 X Line 35) (Line 37/Line 36) is noted on line 45 of each of these pages. The sum of these pages is then totaled. For ease of reference, the pages are attached and numbered.

COLONIAL GAS COMPANY
D.T.E. 03-90

FIRST SET OF INFORMATION REQUESTS OF THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

D.T.E. 1-7

Respondent: Jennifer Bedard

Q. Please provide the information shown in Table 1 on page 4.

A. See spreadsheet attached.

Colonial Gas Company/KeySpan
DTE 1-7

DTE 03-90

Part I: Standard 4-Year Rolling Period Method (DTE 97-1121(1999)

Customer Class	LBR to be Recovered	Associated Carrying Costs to be Recovered	Total LBR To Be Recovered
Residential	\$		
Small C&I	\$		
Medium C&I	\$		
Total C&I	\$		
TOTAL	\$		

Part II: Method Prior to DTE 97-112 (1999) (Including all measures installed)

Customer Class	LBR to be Recovered	Associated Carrying Costs to be Recovered	Total LBR To Be Recovered
Residential	\$ 691,001.00	\$ 90,823.00	\$ 781,824.00
Small C&I	\$ 129,471.00	\$ 14,633.00	\$ 144,104.00
Medium C&I	\$ 318,902.00	\$ 35,860.00	\$ 354,762.00
Total C&I	\$ 448,373.00	\$ 50,493.00	\$ 498,866.00
TOTAL	\$ 1,139,374.00	\$ 141,316.00	\$ 1,280,690.00

Part III: Exogenous Costs Calculation,

LBR to be Customer Class	Recovered As Exogenous Cost	Associated Carrying Costs to be Recovered As Exogenous Cost	Total LBR To Be Recovered As Exogenous Cost
Residential	\$ 691,001.00	\$ 90,823.00	\$ 781,824.00
Small C&I	\$ 129,471.00	\$ 14,633.00	\$ 144,104.00
Medium C&I	\$ 318,902.00	\$ 35,860.00	\$ 354,762.00
Total C&I	\$ 448,373.00	\$ 50,493.00	\$ 498,866.00
TOTAL	\$ 1,139,374.00	\$ 141,316.00	\$ 1,280,690.00